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# OUTLOOK 2011

# MONTANA

## BUSINESS QUARTERLY

VOLUME 49, NUMBER 1, SPRING 2011

UNIVERSITY OF MONTANA

APR 26 2011

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# PAYING FOR THE RECESS ON

## Rebalancing Montana's Economy

Inside:  
National, State, and Local Forecasts  
Housing Markets  
Industry Reports:  
- Travel and Recreation  
- Health Care  
- Agriculture  
- Manufacturing  
- Forest Products



## BUREAU OF BUSINESS AND ECONOMIC RESEARCH

### ABOUT THE BUREAU OF BUSINESS AND ECONOMIC RESEARCH

The Bureau of Business and Economic Research has been providing information about Montana's state and local economies for more than 50 years. Housed on the campus of The University of Montana-Missoula, the Bureau is the research and public service branch of the School of Business Administration. On an ongoing basis, the Bureau analyzes local, state, and national economies; provides annual income, employment, and population forecasts; conducts extensive research on forest products, manufacturing, health care, and Montana Kids Count; designs and conducts comprehensive survey research at its on-site call center; presents annual economic outlook seminars in cities throughout Montana; and publishes the award-winning *Montana Business Quarterly*.

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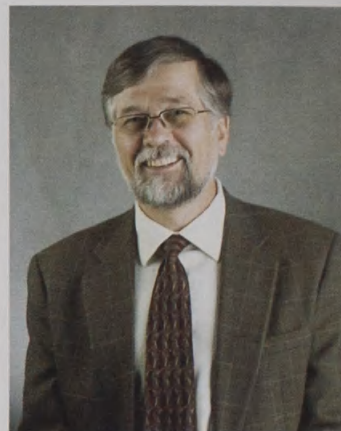
TODD YOUNKIN

*the thinking is clearer up here*

School of  
**BUSINESS**  
**ADMINISTRATION**  
The University of Montana

## MESSAGE FROM PRESIDENT ROYCE ENGSTROM

The message from the experts around the entire Montana University System in this issue of the *Montana Business Quarterly* is one we've been waiting a long time to hear – the Montana economy is finally getting better. As these pages explain, that doesn't mean the challenges all of us have been facing for the past two and a half years are going to disappear overnight. But it's nice for all of us – from our spring graduates heading for the job market, to retirees trying to stretch their savings – to know that things are at least heading in a better direction.



What some have called the Great Recession has presented us at The University of Montana with some different kinds of challenges. The headcount enrollment at our Missoula campus this spring was an all-time high of more than 15,000, which includes more than 350 additional students enrolling in our College of Technology (COT) compared with a year ago. There's no question that changes in the economy, some of them disruptive and painful, have caused many Montanans and others to enter or return to school to acquire new skills and expertise. And we're happy to provide the access to higher education opportunities that we feel are such a vital ingredient to our continued growth and prosperity.

The pressures on staffing and physical facilities as a result of enrollment increases are significant. It is especially crowded at the COT, where students are turning in record numbers because of its direct connection to the workforce. Faculty and staff members are working hard to meet the growing demand while making sure that our high standards of educational quality are met. And like the economy, we do feel like we're heading in a good direction.

Royce C. Engstrom

A handwritten signature of Royce C. Engstrom in dark ink.

President  
The University of Montana



# MONTANA BUSINESS QUARTERLY

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# Paying for the Recession

## Rebalancing Economic Growth

by Patrick M. Barkey

**E**conomic downturns are emotionally charged events. The fireside chats of President Franklin Roosevelt during the Depression of the 1930s encouraging Americans to ward off the demons of fear and panic remain relevant today. But now more than a full year after the officially declared end of the 2007-09 recession, our fears have shifted to something a bit different: How we will pay the full cost of bringing this recession to a close?

The concern is not just about how we will close the government deficits that ballooned as economic growth went into reverse. It's about reconfiguring and rebalancing everything from household budgets to international trade to adjust to what might be called a post-housing bubble reality. It's a reality where everything built on the assumption of faster growth fueled by booming construction and real estate needs to be reassessed, from household savings rates to government entitlement programs.

### Four Challenges to Balanced Economic Growth

There has perhaps never been a time when growth in the U.S. economy has been in perfect balance. But by any standard, the number and the size of the imbalances that the economy faces today are daunting. They represent a challenge to policymakers and the private sector alike. Specifically, the list includes:

**Housing price correction.** During the past decade, housing price appreciation spiked up strongly from its long-term average, resulting in a destructive cycle of speculative investment financed by opaque financial instruments.

**Low savings rates.** U.S. households went on a borrowing binge during the bubble years before the recession, helped by rapidly rising home prices and inflows of investment capital from abroad. In the post-bubble recovery, savings must increase if households are to avoid drastic reductions in standards of living in retirement.

**Global trade imbalances.** As the global economy has expanded, so have the persistent surpluses and deficits in goods and service flows in some parts of the world, building pressures on exchange rates that are becoming increasingly more difficult to effectively manage.

**Government budgets.** Paying for the deficits that exploded at all levels of government during the recession will be tough, but not as tough as solving the longer-term structural issues the post-bubble recovery has revealed.

On the bright side, both market forces and policymakers are progressing in all of these areas. And for Montanans, certainly, some of these issues loom larger than others. Together they presage a new economic environment for households, businesses, and governments.



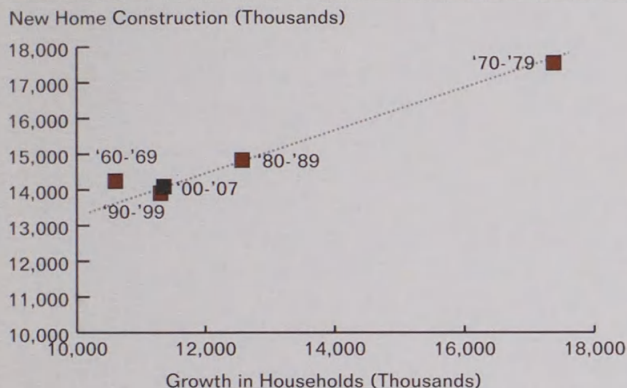
### Housing Price Correction

The housing boom of the past decade is frequently misinterpreted as an unsustainably high rate of new home construction. While that may have been true for some individual markets and for some types of homes, there is no evidence that the number of homes built overall was out of line with market fundamentals. In fact, the relationship between the net increase in U.S. households and the number of new homes built over the past five decades, as depicted in Figure 1, shows a remarkably close relationship, with the period 2000-2007 lying almost exactly on the historical trend.

On the other hand, the growth in housing prices deviated significantly from historical trends, as shown in Figure 2. In the 1990s, U.S. housing prices as measured by the Federal Home Finance Agency's (FHFA) price index grew at approximately the same rate as income, so that the ratio of the two showed no visible trend. With the new decade that pattern shifted abruptly. Between 2000 and 2006, housing prices greatly outpaced income. In just seven years, housing prices grew by 40 percent relative to income. In raw terms, they grew much faster. Using a second measure of housing prices, which is derived from prices in the largest metropolitan areas of the United States, the boom was even more pronounced.

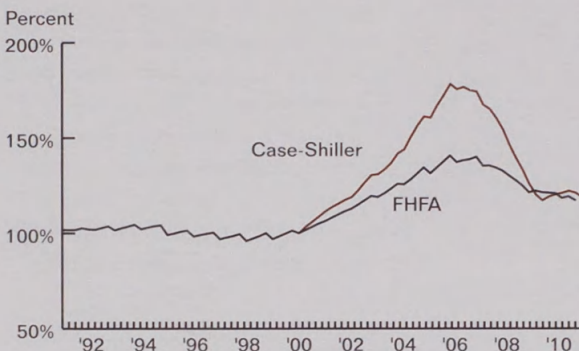


**Figure 1**  
**U.S. Housing Starts vs. Growth in**  
**Number of Households, 1960-2007**



Source: U.S. Census Bureau.

**Figure 2**  
**Ratio of Home Price Index to Median**  
**Household Income, U.S., Index Jan 2000 = 100**



Sources: U.S. Census Bureau, Federal Home Finance Agency, and Standard and Poors, Inc.

The collapse in housing prices since their peak has been just as dramatic. It is clear from Figure 2 that the decline in prices relative to income – using either the FHFA or the Case-Shiller index of prices – has erased most, but not all, of the gains of 2000-2006. Whether prices continue to slip lower in 2011 or not, it is clear that most of the adjustment in housing prices has now taken place.

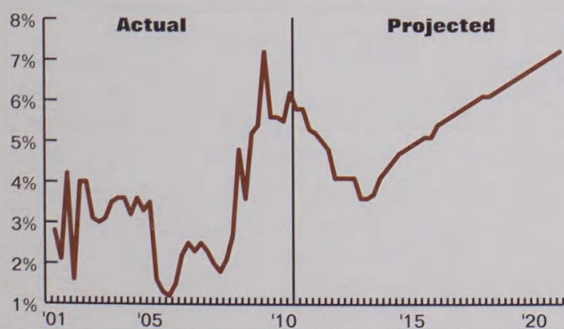
## Low Savings Rates

Levels of debt held by households in the U.S. economy have been increasing faster than income since the early 1990s. Although low interest rates that have largely prevailed

over this time period have limited the increases in the cost of servicing that debt, household financial obligations rose from 16 percent of after-tax income in 1993 to just short of 19 percent at just as the recession hit in 2007. During this same time, household savings flows, defined as the difference between total income and total consumption in any period, hovered between 1 percent and 2 percent of after-tax income, as shown in Figure 3.

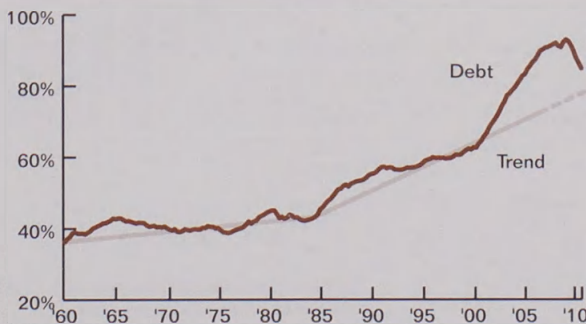
Since 2007, consumer debt levels have fallen steeply, as shown in Figure 4. Almost all of this has been due to write-downs of bad loans by banks and other lending institutions. Mortgage and consumer debt as a percentage of the total

**Figure 3**  
**Savings as a Percent of After-Tax Income,**  
**U.S., Actual and Forecast, 2001-2020**



Sources: U.S. Bureau of Economic Analysis and IHS Global Insight.

**Figure 4**  
**U.S. Mortgage and Consumer Debt as a Percent**  
**of Gross Domestic Product [GDP], 1960-2010**



Sources: Federal Reserve and Bureau of Economic Analysis.



economy has now largely closed the gap between its pre-recession peak and the long-term trend. Savings rates have rebounded to between 5 percent and 6 percent of income – lower than most developed countries but much higher than the very low rates prior to the recession.

Higher savings rates mean lower consumer spending. That, in turn, means fewer restaurants and car dealers and shorter vacations.

But it also could mean fewer imported goods and a smaller trade deficit.

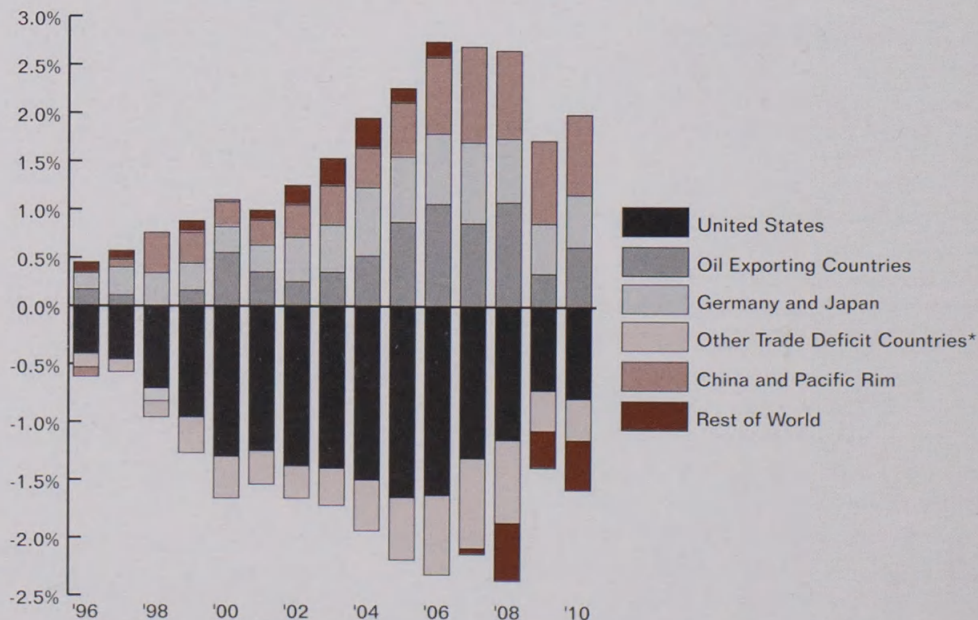
## Global Trade Imbalances

There is clearly one way in which global trade imbalances – defined as the persistent difference between what a

country buys and sells to/from the rest of the world – can be brought down. The global economic downturn of 2008-2009, when more than 80 percent of countries in the world were in recession at the same time, certainly took a bite out of surpluses and deficits around the world, as shown in Figure 5. But no one wants to pull the plug on the global commerce that has done so much to raise living standards around the world just to halt the red ink in trade.

With recovery in global trade post-recession, most forecasters expect surpluses in Asian countries plus Germany, and deficits in the United States, to grow again for the next few years. And we are increasingly aware of the problems that result as other countries pile up dollars and the United States piles up debt. It is difficult to predict the ultimate outcome, and it is difficult to reconcile this trajectory with the spending power and the dominance of the dollar in world markets that we have been long accustomed to.

**Figure 5**  
**Trade Surpluses and Deficits**  
**as a Percent of World GDP, 1996-2010**



\*17 countries including former Warsaw Pact countries plus Ireland, U.K., Spain, Turkey, and Greece.  
Source: International Monetary Fund.



## Government Finance

The tsunami that hit governments in the recession was real. But not all governments were equally affected. And for local governments in particular, the worst may be ahead as housing price declines start to show up in the assessed value of property.

State governments overall took a huge hit in tax revenues, as shown in Figure 6. This was largely due to their dependence on economically sensitive taxes including income and (outside Montana) general sales taxes. Plugging budget holes with one-time instruments such as rainy day funds and federal stimulus dollars has helped states tread water. Even without the recession-related stress on state budgets, the twin problems of dealing with pension underfunding and Medicaid costs would be daunting. Add to that mix the need to replenish rainy day funds for the next downturn and it is apparent why state capitols are such glum places.

The federal government's budget problems are of a completely different order of magnitude. The recession was deep and the past two year's deficits were huge, but the real problem is what happens after the recession, when total government debt takes off as baby boomers retire. Thirty years of congressional dysfunction has narrowed the range of options for dealing with entitlement reform.

The aging of baby boomers is upon us and that will impact spending on Social Security as well as the federally funded share of health care, as shown in Figure 7. The promises to older Americans must be kept, and the obligations of past deficits must be paid. But what can and must be changed are the promises to future generations, no matter how unpleasant this may be. There are good ideas out there to right this ship, and it's time we started taking them seriously.

## Conclusion

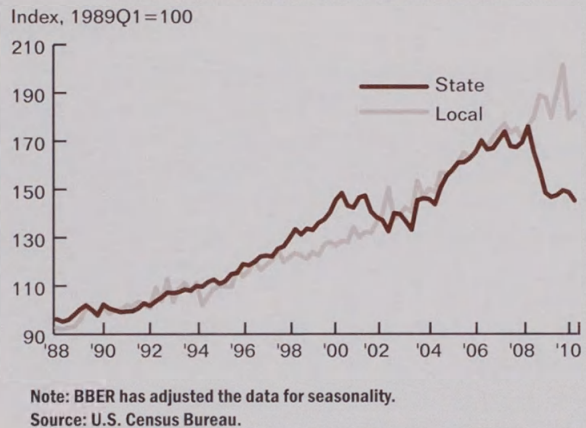
Fixing all of our economic problems is either frightening or exhilarating, depending on how you look at it. The challenges are huge, but so are the talents and capabilities of the most flexible, dynamic, and innovative economy in the world. Addressing these problems is certainly a daunting task, but looking the other direction is a less and less feasible option. □

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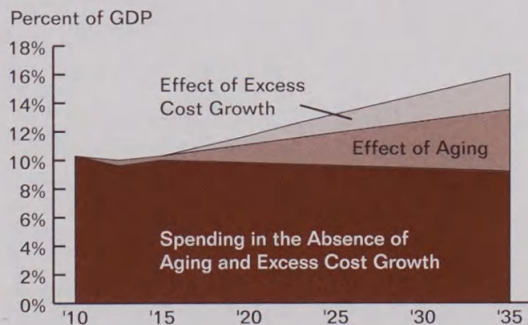
*Patrick M. Barkey is the director of The University of Montana Bureau of Business and Economic Research.*

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**Figure 6**  
**State and Local Tax Revenues,**  
**U.S., 1988-2010**



**Figure 7**  
**Components of Future Cost Growth in**  
**Social Security, Medicaid, and Medicare,**  
**2010-2035**





# U.S. Recession Officially Over Is Recovery Ever Going to Arrive?

by Patrick M. Barkey

**Y**ou can be forgiven for missing it – but the worst recession since the 1930s ended in the summer of 2009, according to the National Bureau of Economic Research. With sluggish hiring, weak growth, and a whiff of fresh banking problems in Europe and the United States, it sure doesn't feel like the economy is getting better. But with tax policy at last in place, with a weaker dollar and a slowly improving consumer mood, 2011 shapes up as the year that the recovery finally gets rolling in the national economy.

The U.S. economy will grow a bit faster in 2011, but still not fast enough to bring unemployment rates down much from 9.6 percent. Following are the top 10 predictions for the coming year, courtesy of IHS Global Insight, Inc.

## Top 10 Economic Predictions for 2011

(Courtesy of IHS Global Insight, Inc.)

1. The U.S. economic recovery will pick up steam as the year progresses. The newly enacted tax package will help push growth close to 3 percent in 2011.
2. Europe and Japan also will see stronger growth in GDP in the second half of 2011. Unless a full crisis envelops the Euro, growth will flatten before improving later in the year.
3. Emerging markets such as Latin America and China will slow, but will continue to grow three times faster than advanced economies.
4. Interest rates will be mostly unchanged in the United States and other G-7 countries, but will rise in Brazil, Russia, China, and India. Central banks are expected to keep rates at very low levels for the next 12 months.
5. Fiscal policy will tighten across the developed economies. Whether by choice or under duress, pressure to close deficits will tighten government belts.
6. Commodity prices will continue their gradual rise. Look for prices to be 5 percent to 10 percent higher for most commodity goods by this time next year.
7. Inflation will not be a problem in advanced economies, but prices will heat up in emerging economies. Consumer price inflation in mature economies will be only 1.5 percent in 2011, compared to 5.5 percent in the developing world.
8. Global imbalances will neither worsen nor improve. The United States will continue to run a trade imbalance with the rest of the world in general and with China in particular.
9. The dollar will continue to weaken against most currencies, with the exception of the Euro.
10. Risks to global growth are becoming more balanced, on the upside and the downside. Faster growth in business and consumer spending is possible, as is a new crisis in sovereign debt finance.

**Table 1**  
**Economic Trends for the U.S. Economy, 2005-2014**  
**Actual and Projected as of December 2009**

	Actual					Projected				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP (chained \$), percent change	3.1	2.7	1.9	0.0	-2.6	2.8	2.4	3.0	3.2	3.3
Inflation (CPI-U), percent change	3.4	3.2	2.9	3.8	-0.3	1.6	1.3	1.8	2.0	2.2
<b>Interest Rates</b>										
90-day T-bills, percent	3.1	4.7	4.4	1.4	0.2	0.1	0.3	1.4	3.4	3.6
Mortgage rates (30 years), percent	5.9	6.4	6.3	6.0	5.0	4.7	4.5	5.0	6.1	6.2
Housing starts, millions	2.07	1.81	1.34	0.90	0.55	0.59	0.70	1.09	1.41	1.62
Unemployment rate, percent	5.1	4.6	4.6	5.8	9.3	9.6	9.5	8.9	8.2	7.5
Oil, West Texas Intermediate (\$/barrel)	56.56	66.12	72.18	99.76	61.77	78.87	82.83	89.16	93.02	96.27

Source: IHS Global Insight Inc.



# Montana Outlook

## Stronger Growth Ahead

by Patrick M. Barkey

**A**fter enduring the broadest, deepest recession seen in the state in 25 years, Montanans can expect to see better growth arrive in the state economy in 2011. The weak growth that we projected at this time last year for 2010 was exactly what we got, and it did little to ease concerns over our economic future. It also did little to help labor markets or state tax revenues, both of which moved sideways for most of the year.

But compared to the steep declines most sectors of the state economy experienced in 2009, 2010 was a year when consumer spending stabilized, financial institutions returned to normality, and virulent cost-cutting by businesses came to an end. And for some Montana industries, most notably

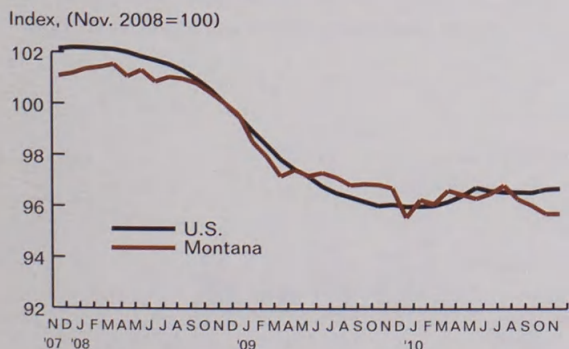


agriculture and natural resources, prospects brightened considerably.

We expect that 2011 will be the year when growth in the state economy kicks up a notch. Compared to the housing bubble-related growth in pre-recession times, growth will be tame. But beginning in the second half of 2011 and continuing into 2012, the Montana economy will turn in its best performance since 2006, due to:

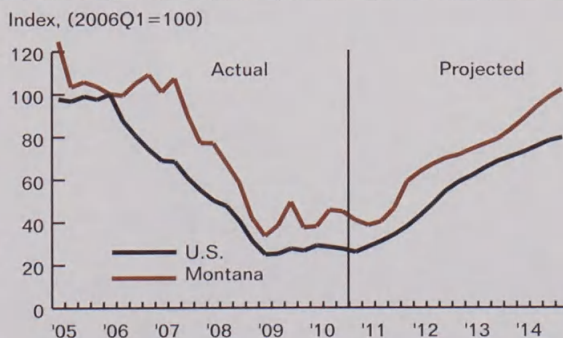
- continued and expanded investment in the state's energy and natural resource infrastructure,
- strong growth in farm receipts due to improved global market conditions,
- growth in exports fueled by a weaker dollar, and
- continued strengthening in consumer spending in the national economy.

**Figure 1**  
**Nonfarm Wage and Salary Employment, Montana and U.S.**



Sources: U.S. Bureau of Labor Statistics and Montana Department of Labor and Industry.

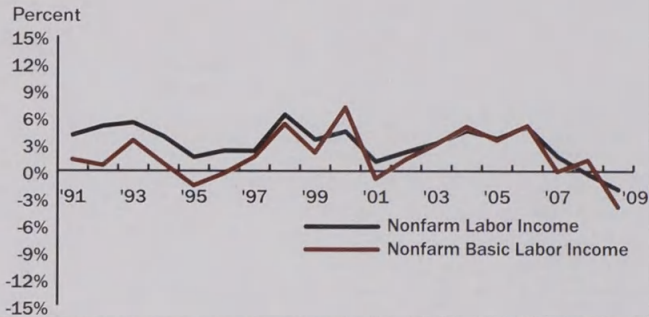
**Figure 2**  
**Residential Housing Starts, Montana and U.S. 2005 Q1 to 2014 Q4**



Sources: U.S. Bureau of the Census and IHS Global Insight, Inc.

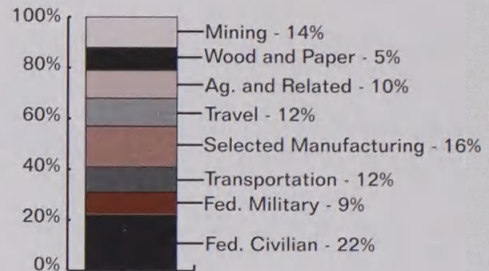


**Figure 3**  
**Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, 1991-2009, [In Constant Dollars]**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 4**  
**Labor Income in Basic Industries, Montana, 2008-2010 [Percent of Total]**



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

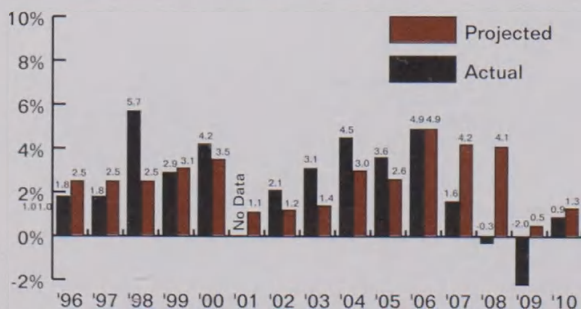
Still sitting on the sidelines will be Montana's construction and forest products industries. While we are more optimistic about a return to housing construction, it will be another two years before we will see anything resembling healthy demand for new homes.

Governments are another sector that continues to face challenges. The unsustainable federal budget situation

presents a key risk to our forecast, as do the fiscal pressures other governments face worldwide. Prudent management of a still-fragile situation in housing finance is also vital if this recovery is to spread its wings in the coming year. □

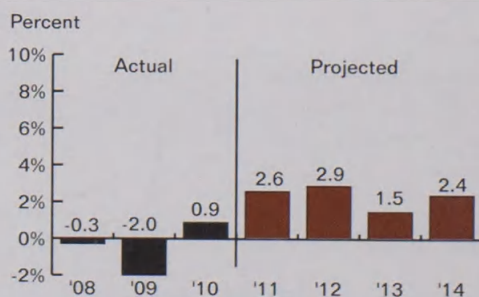
*Patrick M. Barkey is the director of The University of Montana Bureau of Business and Economic Research.*

**Figure 5**  
**Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1996-2010**



Sources: Bureau of Business and Economic Research, The University of Montana; Bureau of Economic Analysis, U.S. Department of Commerce.

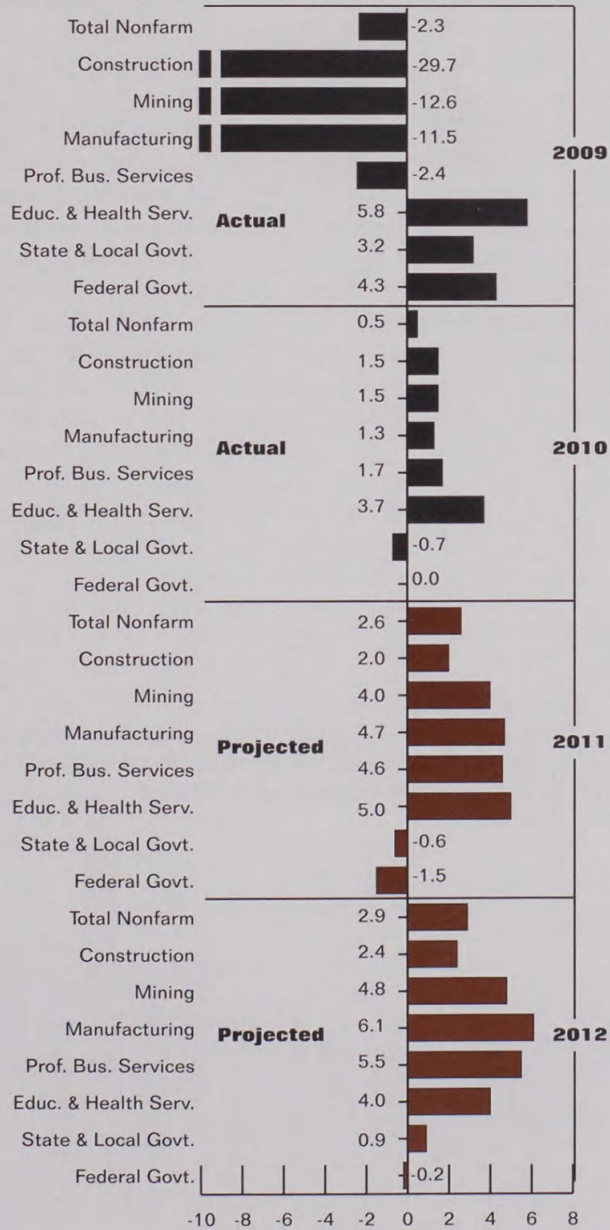
**Figure 6**  
**Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 2008-2014**



Note: Data seasonally adjusted by BBER.  
Source: U.S. Bureau of Labor Statistics.



**Figure 7**  
**Percent Change in Wage and Salary**  
**Disbursements, Montana, Selected Industries**  
**2009-2012**



Sources: Bureau of Business and Economic Research, The University of Montana;  
 IHS Global Insight Inc.



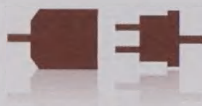
# Local Outlook

## Stronger Growth Ahead

by Paul E. Polzin

There is almost no place in Montana that escaped the Great Recession. But the course of the recession did vary from county to county within the state. How did the recession play out in different parts of the state?

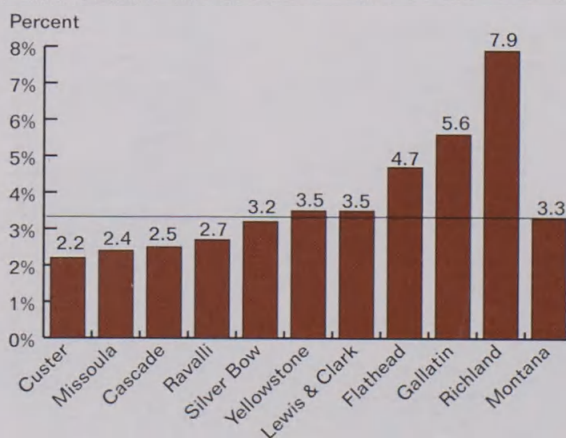
To put things into perspective, the pre-recession economic conditions need to be addressed. Figure 1 presents the average annual rates of growth for selected Montana counties from 2001 to 2007. This period represents the recovery phase of the business cycle that began with the 2001 recession.



Statewide, economic growth averaged about 3.3 percent from 2001 to 2007. This was a period of relatively rapid growth fueled by the energy and commodity boom. The period from 2004 to 2006 included some of the fastest statewide growth since the 1970s.

The Montana counties can be roughly divided into three groups. The fastest growing were Richland, Gallatin, and Flathead counties. The second group consists of Yellowstone, Silver Bow, and Lewis and Clark – all growing at about the statewide average. The slowest growing were Missoula, Ravalli, Cascade, and Custer counties. Richland County was benefitting from increased oil exploration while the house price/construction boom was greatest in Flathead and

**Figure 1**  
**Annual Percent Change in Nonfarm Labor**  
**Income, Montana and Selected Counties,**  
**2001-2007 [in Constant Dollars]**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.



Gallatin counties. The reason Missoula lagged behind the rest of the state is that most of the energy/commodity growth occurred in eastern Montana. Additionally, Missoula's role as a regional trade center was suffering because of competition from other communities.

Figure 2 presents the trends during the recession years of 2008 and 2009. Flathead and Gallatin counties were the fastest growing during the recovery phase and the hardest hit by the recession and the bursting of the house price/construction bubble. Even though the bubble was not as big in Ravalli County, its bursting had significant impacts on the local economy.

The counties that suffered the fewest recession impacts were Cascade, Custer, and Lewis and Clark counties, all dependent on government. Malmstrom Air Force Base dominates the Cascade County economy; Lewis and Clark County is home for much of Montana state government; and, Custer County has many of the regional offices for both federal and state agencies.

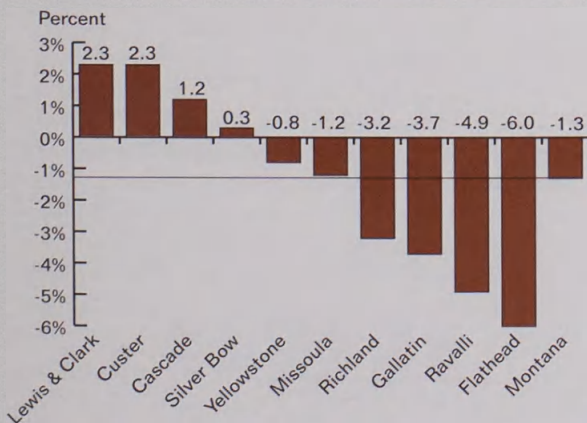
The recession impacts were moderate in Silver Bow, Yellowstone, Richland, and Missoula counties. The relatively

modest declines in Missoula County may paint a too optimistic picture. Missoula County was the only major city in Montana to post three straight years of decline – 2008, 2009, and 2010. Richland County experienced only one year of decline in 2009, and this may have had more to do with a slowdown in oil exploration rather than the recession.

The forecasts for 2010 to 2014 are summarized in Figure 3. Gallatin County is projected to, once again, be the fastest growing major county in the state. Despite the significant declines in construction and housing, none of Gallatin County's major basic industries were permanently impacted by the recession. The high-tech sector, combined with Bozeman's growing role as a regional trade center and Montana State University's stabilizing influence, should lead to continued growth. Custer and Lewis and Clark counties are projected to be the slowest growing. Both are dependent on government, which is unlikely to be a growing industry in the next few years.

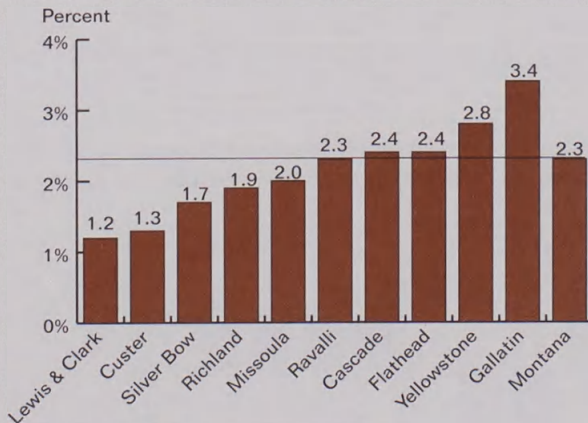


**Figure 2**  
**Annual Percent Change in Nonfarm Labor Income, Montana and Selected Counties, 2008-2009 (in Constant Dollars)**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 3**  
**Projected Annual Percent Change in Nonfarm Labor Income, Montana and Selected Counties, 2010-2014 (in Constant Dollars)**



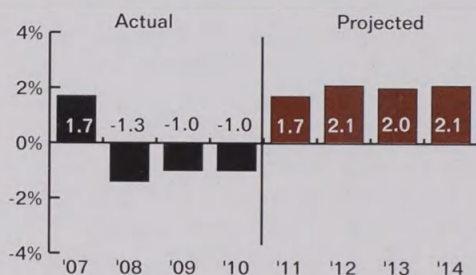
Source: Bureau of Business and Economic Research, The University of Montana.



## Missoula County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	6%	-
Nonresident Travel	7%	Some Recovery
Transportation	13%	Slow Growth
Wood and Paper	8%	Flat, at Best
Federal Government	14%	Stable at Best
Trade Center Medical	14%	Reform?
Trade Center Retail, Service	6%	Negative to Flat
UM, Other State	20%	Modest Pay Increase
Construction	-	Slow Recovery

### Actual and Projected Percent Change in Nonfarm Labor Income, Missoula County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

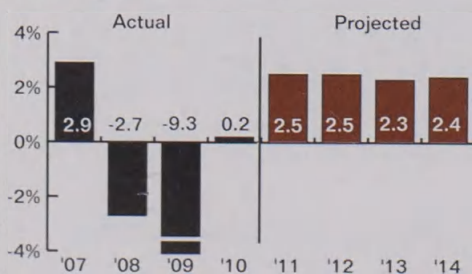
## Missoula County

The recession has been long and hard for Missoula because cyclic job losses have been exacerbated by permanent closures and shutdowns. Missoula is the only major Montana city to experience three straight years of economic declines. The downward spiral began with the shutdown of the Bonner plywood plant in 2007 and was followed by the Bonner sawmill closure in 2008. The final shoe to drop was the closure of the Smurfit-Stone pulp mill in early 2010. Growth is projected to turn positive in 2011. Economic growth in Missoula County has consistently lagged behind the statewide average since mid-decade, and this is unlikely to change in the near future. Missoula continues as the dominant trade and service center in western Montana, but competition from other communities means that these sectors are contributing much less to local growth. It will be at least 2012 before Missoula's real nonfarm labor income (an overall measure of the economy) regains its 2007 peak.

## Flathead County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other Basic	8%	-
Primary Metals	2%	CFAC Dormant
Transportation	7%	Slow Growth
Trade Center	13%	?
Other Manufacturing	16%	Some Growth
Federal Government	16%	Stable at Best
Nonresident Travel	20%	Slow Growth
Wood Products	18%	Bottom?
Construction	-	Slow Recovery

### Actual and Projected Percent Change in Nonfarm Labor Income, Flathead County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Flathead County

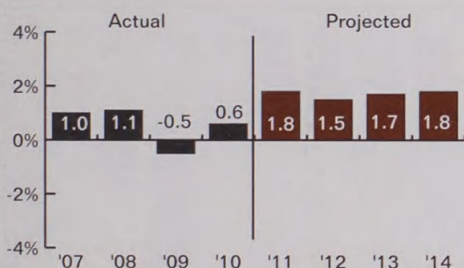
According to the numbers, the recession hit the Flathead economy harder than any other major urban area in the state. The nonfarm labor income decline of 2.7 percent in 2008 and the 9.3 percent decrease in 2009 were the largest among the cities reported. Flathead County's unemployment rate hit 11.3 percent in November 2010, higher than any of the other large counties in the state. These sizable impacts were the result of closures (such as Columbia Falls Aluminum Company) combined with cyclic declines in major industries such as wood products, nonresident travel, and construction. On the positive side, the evolution of Kalispell into a regional trade and service center continues to be one of the growing sectors of the economic base. It will be at least 2014 before real nonfarm labor income (an overall measure of the economy) in Flathead County regains its 2007 peak. It will take even longer for employment to regain its pre-recession level.



## Butte-Silver Bow County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Manufacturing	10%	Stable
Federal Government	10%	Stable at Best
Utility	12%	Stable
Trade Center Retail	13%	Slow Growth
Montana Tech, State Gov't	14%	Modest Pay Increase
Trade Center Services	18%	Slow Growth
Mining	23%	Positive World Trends
Construction	-	Slow Recovery

## Actual and Projected Percent Change in Nonfarm Labor Income, Silver Bow County, 2007-2014

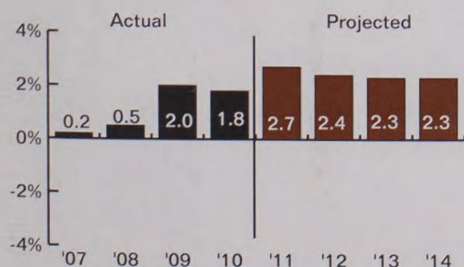


Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Cascade County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	6%	-
Transportation	6%	Slow Growth
State Gov't & Higher Ed.	6%	Modest Pay Increase
Manufacturing	6%	Stable
Trade Center - Other	8%	Stable
Trade Center - Health	11%	? Reform
Federal Civ.	10%	Stable at Best
Malmstrom AFB	47%	Stable, Air Guard?
Construction	-	Slow Recovery

## Actual and Projected Percent Change in Nonfarm Labor Income, Cascade County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Butte-Silver Bow County

The recession was relatively mild for the Butte-area economy. There was only a one-year decline in nonfarm labor income. There were, however, decreases in construction and retail trade. The forecast assumes that the Montana Resources mine remains open and operating at about current levels, but that employee bonuses reflect changes in the price of copper. Chip and solar panel producer REC Silicon, located in Butte, continues to serve worldwide markets. The trade center components of Butte's economic base (retail trade and services) continue to grow, reflecting the city's continued development as a regional trade and service center.

## Cascade County

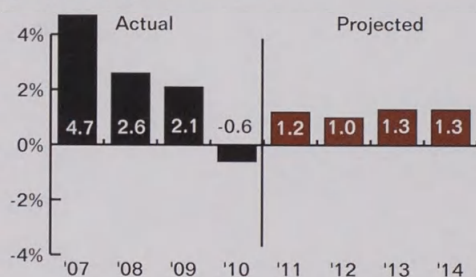
The Great Falls-area economy experienced fewer recession impacts than any other area in Montana. It was the only major city in Montana that did not decline at anytime. Even so, certain sectors – mostly wholesale trade, retail trade, and construction – were hard hit. Malmstrom Air Force Base (including both civilian and military workers) accounts for almost one-half of the economic base in Cascade County, and stable or slightly increasing staffing levels lend stability to the local economy. Great Falls continues as the dominant medical center in north central Montana, and growth in the sector during 2008 and 2009 helped to mute recession impacts in other industries.



## Lewis & Clark County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	10%	-
Manufacturing	5%	Stable
Trade Center	16%	Slower Growth
Federal Government	24%	Stable at Best
State Government	45%	Modest Pay Increase
Construction	-	Slow Recovery

## Actual and Projected Percent Change in Nonfarm Labor Income, Lewis & Clark County, 2007-2014

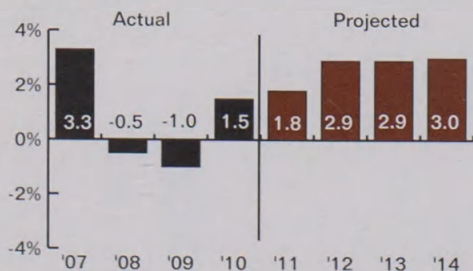


Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Yellowstone County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	1%	-
Nonresident Travel	4%	Some Recovery
Transportation	8%	Slow Recovery
Mining	9%	Growth Potential
MSU-B and State Gov't	7%	Modest Pay Increase
Federal Government	13%	Stable at Best
Health Care	14%	Reform?
Manufacturing	17%	Stable
Trade Center	27%	?
Construction	-	Slow Recovery

## Actual and Projected Percent Change in Nonfarm Labor Income, Yellowstone County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Lewis and Clark County

The legacy of the Great Recession for the Helena area economy is likely to be relatively long period of tepid growth. Lewis and Clark County experienced a modest decline during only one year – 2010. But the lagged recession impacts on state government revenues mean only small increases for state workers and continued tight budgets. Growth is projected to be about 1 percent per year from 2010 to 2014, well below the 3 percent to 5 percent increases before the recession. Despite the small overall recession impact, construction activity in and near Helena has dropped to a fraction of that occurring before the recession.

## Yellowstone County

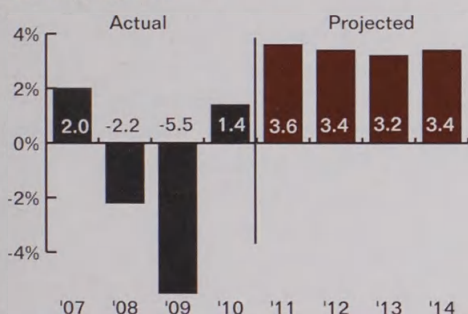
The recession was relatively mild for the Billings area economy. There were only modest declines in 2008 and 2009. However, certain sectors of the economy such as construction and retail trade did experience significant declines. Billings has been an indirect beneficiary of the energy/commodity boom. Although there are no mines or oil rigs in Yellowstone County, the regional headquarters and other support employment has located in and near Billings. The future of the vital oil refineries appears more secure, and employment and earnings has been increasing modestly. Billings's retail industries continue to face competition from second-order trade centers such as Miles City and Bozeman.



## Gallatin County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other Basic Industries	-	-
Federal Government	10%	Stable at Best
Nonresident Travel	15%	Some Recovery
Trade Center	19%	Slower Growth
Manufacturing	21%	Continuing Strong
MSU and State Gov't	30%	Modest Pay Increase
Construction	-	Slow Recovery

## Actual and Projected Percent Change in Nonfarm Labor Income, Gallatin County, 2007-2014

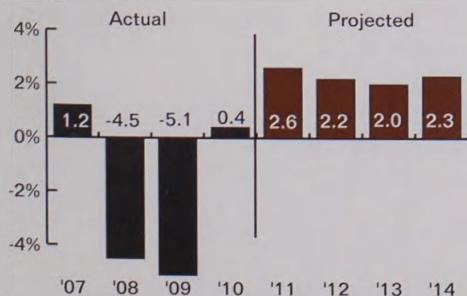


Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Ravalli County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Ag., Mining, and Nonresident Travel	8%	-
Transportation	4%	Slow Growth
Medical Research	9%	Growth Potential
Federal Government	15%	Stable at Best
Wood Products	5%	Bottom?
Other Manufacturing	9%	Stable
Commuters	50%	Stable

## Actual and Projected Percent Change in Nonfarm Labor Income, Ravalli County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Gallatin County

Despite the sharp declines in 2008 and 2009, the Bozeman- area economy should emerge from the recession relatively unscathed. Construction and real estate plummeted, and nonresident travel (which accounts for 13 percent of the local economic base) decreased sharply in response to the national recession. But Bozeman's high-tech industries (which suffered greatly during the 2001 recession) continue to expand. Employees of Montana State University-Bozeman will see their wages increase only slightly. The roughly 3.5 percent annual growth projected for 2010 to 2014 may appear buoyant compared to the recession years, but it is nearly a full percentage point lower than the prerecession average of 4.4 percent per year.

## Ravalli County

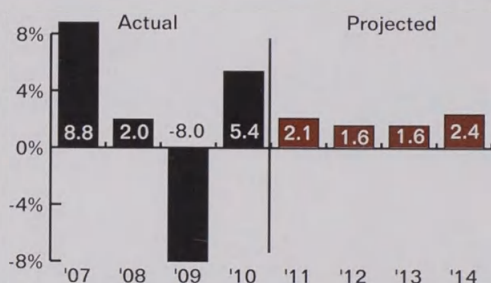
Despite its reputation as an amenity area and retiree destination, Ravalli County suffered as much from this recession as anywhere else in the state. The 4.5 percent and 5.1 percent declines in 2008 and 2009 rival those in Gallatin and Flathead counties. The surprisingly large cyclic decline in Ravalli County is partially due to the bursting of the large construction sector associated with recreational and second-home building. In addition, the doldrums in the U.S. housing market significantly impacted the local wood products industry, especially the log home manufacturers who were producing for the high-end market. The slowdown in nearby Missoula also contributed because of the large number of workers who live in Ravalli County but commute to jobs across the county line. The one bright spot is that Hamilton continues to evolve into a regional trade and service center, with the presence of major retailers and growth in selected services.



## Richland County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	8%	-
Health Care	4%	?
Fed. Government	7%	Stable at Best
Transportation	10%	Slow Recovery
Manufacturing	11%	Stable
Ag. and Ag. Related	19%	Optimistic
Oil and Coal	41%	More Stability?

## Actual and Projected Percent Change in Nonfarm Labor Income, Richland County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

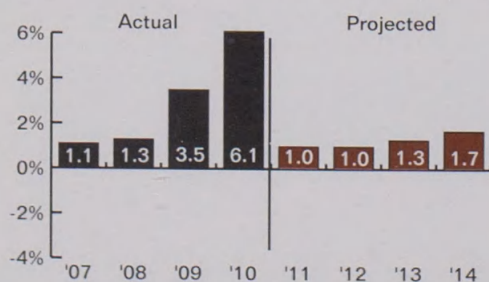
## Richland County

The volatile energy industry continues to dominate economic trends in the Sidney-area economy. The deceleration in 2008 and the 8 percent decline in 2009 closely mirror the impacts of the Great Recession on oil prices. The recovery in 2010 reflects increased oil drilling and extraction plus the temporary boost associated with pipeline construction. The number of workers in drilling and extraction is projected to come close, but not quite equal, the pre-recession peak of 2007. The forecast calls for more moderate growth during the next few years, but renewed exploration, drilling, and pipeline construction are the economic wild cards. The outlook for agriculture and transportation are strong as the U.S. economy continues to recover.

## Custer County's Economic Base, 2009-2011

Industry	% of Base	Outlook
Other	4%	Growing Trade Center
Manufacturing	5%	Stable at Best
Transportation	6%	Slow Recovery
Ag. and Ag. Related	9%	Optimistic
Trade Center & Health Care	16%	?
State Government	27%	Slight Pay Increase
Fed. Government	33%	Stable at Best

## Actual and Projected Percent Change in Nonfarm Labor Income, Custer County, 2007-2014



Sources: Bureau of Business and Economic Research, The University of Montana;  
Bureau of Economic Analysis, U.S. Department of Commerce.

## Custer County

The significant growth in 2010 can be attributed to the temporary stimulus associated with the pipeline construction project. Despite its image as a cowboy town, the Custer County economy is actually very dependent on government. State and federal workers account for roughly 60 percent of the economic base. The federal facilities include the Bureau of Land Management, the USDA Forest Service, and the Department of Veterans Affairs. The state facilities are the Miles City Community College, the Pine Hills School, and regional administrative offices for other state agencies. Miles City is indirectly benefiting from the commodity/energy boom as service companies locate in Custer County. Southeastern Montana residents now shop in Miles City rather than drive to Billings, and local health care providers serve a large geographic area. □

*Paul E. Polzin is director emeritus at The University of Montana Bureau of Business and Economic Research.*



# Housing Markets Still Struggling

by Scott Rickard

## National Housing Markets

**D**espite efforts by the federal government to increase home sales in 2010, the U.S. housing market continued to contract, with home sales declining by one-quarter. At the same time, the average number of homes offered for sale each month increased by one-half. For properties that did find buyers, estimates of the change in average and median sales prices ranged from a 3 percent drop to a small positive of 1 percent. Estimates of real estate valuation and debt-to-equity suggest that U.S. residential property owners lost another \$1.7 trillion in value in 2010 (and a total of \$9 trillion since the 2006 peak). And one in five homeowners with mortgages owes more on their residences than these homes are worth.

Of course, compared to the U.S. averages and totals, residents of different parts of the country witnessed different market dynamics. For example, prices fell by 16 percent in Atlanta while rising by nearly 10 percent in Washington, D.C.

Foreclosures were another important feature of the U.S. housing market. In mid-2010, on average, one in every 492 homes was in foreclosure. At the state level this varied from one in 99 homes for Nevada to one in 6,395 houses in North Dakota.

Nationwide, the residential construction market continues to shrink. In 2010, housing starts declined almost 6 percent year-over-year, and building permits fell 15 percent for the same time period. Single-family home construction remained weak, while there were some signs of improvements in the construction of multifamily or apartment units.

In the mortgage markets, 2010 was a year where 80 percent of the activity was in refinancing existing loan products, likely due to low mortgage

interest rates. But, unlike just a few years ago, far fewer of these refinancing transactions involved withdrawing equity from the home along with changing the terms or interest rates.



**Table 1**  
**Home Price Index Price Changes**

State	Year-over-Year Price Change	Total Price Change Since Peak
Colorado	-2.9%	-5.7%
Idaho	-9.8%	-22%
Montana	-3.0%	-6.0%
North Dakota	+3.9%	at peak
South Dakota	+0.3%	-0.3%
Wyoming	-4.4%	-8.0%

Note: Data are seasonally adjusted.

Sources: Office of Federal Housing Enterprise Oversight.



**“Montana’s home prices were 3 percent lower in the third quarter of 2010 than they were one year earlier.”**

## **Regional Housing Markets**

For Montana and our region, state-level statistics are a little more encouraging (see Table 1). Using the Office of Federal Housing Enterprise Oversight Home Price Index (HPI), Montana’s home prices were 3 percent lower in the third quarter of 2010 than they were one year earlier. To the east, the Dakotas experienced either price stability (South Dakota) or price increases (North Dakota). Our southern neighbors witnessed price declines of 3 percent (Colorado) and 4 percent (Wyoming). To the west, Idaho home prices have fallen nearly 10 percent. From their peak values, Montana’s prices are down 8 percent, according to the HPI, below Idaho’s 22 percent drop but above our other neighbors.

For each state, the estimated price changes in the major cities are reasonably close to their respective statewide averages, and while the HPI shows some differences between the performances of rural vs. urban markets, the imprecision of the estimates doesn’t allow us to declare that the cities were doing better, or worse, than the outlying areas. This picture holds reasonably true when the time frame is expanded to the past decade, except for North Dakota, where estimates of rural home price growth are one-quarter higher than that for its urban areas.

Concerning foreclosures, Montana and several neighboring states are still experiencing lower levels than the national average. There were 2,578 Montana houses listed in foreclosure in November 2010, representing one out of every 1,642 units. With 559 homes listed, Flathead County accounted for 22 percent of the state’s total. Across the region, foreclosure ratios ranged from one in 6,395 and one in 2,540 for North and South Dakota, respectively, to one in 301 for Idaho.

Sales statistics reported by the Multiple Listing Services (MLSs) across Montana provide some additional details on in-state markets. From the data available, which covers a little more than one-half of the population, it appears that there were fewer single-family homes sold in Montana areas in 2010 than there were in 2009, although this decline was not as large as the national average. The overall average price

paid for these homes held steady, while median prices are improving. This could signify that there was an increase in the sales of the more expensive homes. And it appears that the time required to sell a home increased in 2010.

These estimates do not necessarily hold for every reporting area. In particular, the home sales in Gallatin and Park counties are exhibiting higher sales numbers but lower average and median prices. These estimates are also based upon the performance of the urban Montana counties, and the performance of markets in rural areas may be different.

As measured by building permits, new residential construction in Montana declined by around one-quarter in 2010 from their 2009 levels, with declines seen in most major Montana cities. Even with these declines, for areas such as Flathead, Gallatin, and Missoula counties, permits were still 80 percent below their 2004-05 peak values.

## **Prospects for 2011**

In terms of sales, the national housing market in 2011 will not be appreciably better than it is currently. The likelihood of rising mortgage interest rates, combined with continued high unemployment rates and the equity losses for many current homeowners, will restrain the demand for residential homes, and the number of foreclosed units entering the market will keep a lid on housing prices. In terms of construction, the multifamily apartment sector may continue to grow, but this is a double-edged sword since it represents backers betting upon renting, not ownership.

Montana’s 2011 prospects during this same time are about the same. Local economic growth may generate some additional demand, and sales totals may pick up marginally, but it is unlikely that there will be anything more than a small improvement in prices and the time required to complete a transaction will remain longer than we have experienced for the past decade. □

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*Scott Rickard is the director of the Center for Applied Economic Research at Montana State University-Billings.*

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# Travel and Recreation

## Visitors Attracted to Open Space, Wildlife, and Character

by Norma P. Nickerson

It is safe to say that the reasons we all live in and love Montana are the same reasons that 3.4 million people choose to vacation in Montana each year – and why Montanans host nearly 2 million friends and family members who sleep in their spare bedrooms.

For years, data from UM's Institute for Tourism and Recreation Research (ITRR) has shown that nonresidents visiting Montana in the summer months are attracted to the two national parks, mountains, forests, open space, and uncrowded areas. Scenic driving, wildlife watching, nature photography, day hiking, and camping are the top five activities for nonresident vacationers. Two-thirds of overnight vacations are spent in the Glacier Country or Yellowstone Country travel regions. Almost half of the vacationers reside in the 11 western U.S. states or in the two western Canadian provinces, and 90 percent of nonresident summer visitors drive into the state.



In the winter months, nearly half of all vacationers to Montana are here to ski or snowboard. Unlike summer months, 48 percent of nonresident skiers fly rather than drive into the state. The downhill ski industry provides a combined \$83 million to the state. Nonresidents represent 35 percent of skiers at Montana's ski areas.

In addition to summer and winter activities, many people come to Montana to take a trip with an outfitter and guide. In 2005, 319,000 people took guided trips, and only 10 percent were from Montana.

While the combined economic impact of guided trips in 2005 was \$167 million, \$83 million was from nonresidents who came to Montana solely for the guided trip.

A recent ITRR study showed that certain attributes of Montana were important to nonresidents when visiting: clean waterways, clean air, wildlife viewing opportunities, scenic vistas, open space, an opportunity to view the night sky, and access to public lands and waterways (Table 1). Visitors were

**Table 1**  
**Top Montana Attributes Important**  
**to Nonresident Visitors**

Attributes	Mean Score
Clean waterways	5.5
Clean air	5.5
Wildlife viewing opportunities	5.4
Scenic vistas	5.4
Amount of open space	5.4
Opportunity to view the night sky	5.2
Access to public lands	5.2
Access to waterways	5.0
Pedestrian-friendly atmosphere	4.9
Montana's land ethic	4.7
Main streets that reflect the local culture and heritage of the destination	4.7
Paths for walking and biking	4.7
Eating at restaurants where locals eat	4.7

1= Not at all important; 6= extremely important

Source: Institute for Tourism and Recreation Research, The University of Montana.



quite satisfied with the amount of open space, scenic driving opportunities, the “character” of Montana, the condition of the natural environment, wildlife viewing opportunities, a feeling of being welcomed, and the stewardship of the land (Table 2).

Common sense suggests that Montana residents, along with the tourism industry, should strive to maintain the open spaces, public land access, wildlife, and so forth. For the most part, Montana residents and tourism industry

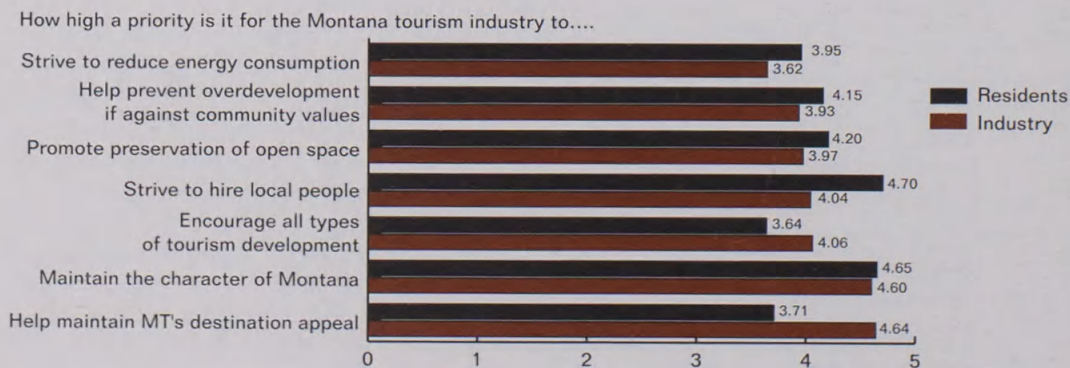
**Table 2**  
**Nonresident Visitor Satisfaction with Montana Attributes**

Please rate your overall satisfaction with the following aspects of Montana:	
Amount of open space	5.67
Scenic driving opportunities	5.64
The "character" of Montana	5.57
Condition of natural environment	5.51
Wildlife viewing opportunities	5.44
A feeling of being welcomed	5.43
Stewardship of the land	5.38
A feeling of authenticity	5.37
Availability of travel information	5.26
Main streets reflecting local culture/heritage	5.26
Variety of lodging choices	5.24
Access to public lands	5.22
Amount of historical roadside information	5.22
Availability of local arts and crafts	5.19
Directional road signage	5.17
Restaurants with local products	5.14
Environmental practices of accommodations	5.02
Road conditions	5.02
Highway rest areas	5.00
Availability of recycling bins	4.25

Scale: 1= Very Dissatisfied; 6= Very Satisfied

Source: Source: Institute for Tourism and Recreation Research, The University of Montana.

**Figure 1**  
**Top Priorities for Tourism Industries,**  
**Responses from Montana Residents and**  
**Montana Tourism Business Owners**



Scale: 1=very low priority; 5=very high priority

Source: Institute for Tourism and Recreation Research, The University of Montana.



business owners agree with the priorities of the tourism industry, albeit in a different order. Survey results indicate that the top priority for the industry was to “help maintain Montana’s destination appeal,” but residents rated it sixth out of seven listed priorities. Residents’ top priority was for the industry to hire local people, but tourism business owners rated it fourth out of seven priorities. However, each of the seven listed priorities had a mean above 3.6 on a five-point scale, indicating that all were priorities (Figure 1).

## Geotourism

One marketing and promotion strategy that is growing popular throughout the tourism industry is geotourism, which incorporates the concept of sustainable tourism – that destinations should remain unspoiled for future generations – while protecting a place’s character.

In Montana, two geotourism map guides have been developed for the Crown of the Continent area (Glacier National Park vicinity) and the Greater Yellowstone area. Local input was important in generating these maps, which encourage travelers to visit locally owned businesses and attractions. Additionally, the tourism industry has created a Montana Tourism Charter centered around geotourism principles (Table 3, page 22). Communities, organizations, and businesses are being asked to sign onto the charter espousing sustainability in their operations and thereby empowering locals in community development. ITRR research has shown that visitors to Montana have geotourism tendencies and are more likely to share the same values that Montana residents do concerning the environment, the communities, and the landscapes. All of this advocates that Montanans have the power to direct the type of tourism development in line with the values of people in the state which, in turn, draws people to visit who hold the same values.

## Future and Challenges

In late 2010, 357 tourism business owners and organizations responded to the annual ITRR outlook survey. Here are comments about some of the challenges facing the industry and Montana as a whole:

### Land use and natural resource planning

- Should we be managing the wolves so elk aren’t endangered?
- Montana’s niche of open space, wildlife, and fisheries is like nowhere else in the Lower 48. ... It’s high time that land-use planning becomes this state’s focus.

## The Scorecard Past and Future

Preliminary numbers for nonresident travel in Montana show an increase of 4 percent in 2010 over 2009. Nationally, domestic leisure travel estimates show an increase of nearly 3 percent while domestic business travel appears to have increased 4 percent in 2010. Here are some more facts on travel and recreation:

- Montana airline travel was up 2 percent in 2010 while the national rate was flat.
- Glacier National Park visitation increased 8.9 percent and Yellowstone increased 8.3 percent, while all U.S. national parks were down nearly 1 percent in 2010.
- Rooms sold in Montana were up 5.6 percent in 2010 while rooms sold throughout the nation were up 7.6 percent.
- Montana skier visits were up 2.3 percent for 2009-10 while national skier visits were up 4.2 percent.
- 2009 nonresident travel industry had a \$1.5 billion direct impact and a \$2.3 billion total impact.
- 2009 nonresident travel industry income had a \$447 million direct impact and a \$661 million total impact.
- 2009 nonresident travel industry employment amounted to 19,160 direct jobs and 25,480 total jobs.

### 2011 Forecast

The tourism industry will experience increases in 2011 including:

- Nonresident visitor numbers will increase by 2 percent.
- Rooms sold (hotel/motel) will increase by 1.5 percent.
- Yellowstone National Park visitation will increase by 3.3 percent.
- Glacier National Park visitation will increase by 0.3 percent.
- Skier visits will increase by 2 percent.
- Airline travel will increase by 1 percent.



**Table 3**  
**Montana Tourism Charter**

Maintain integrity of place and destination appeal.
Promote and highlight the businesses, services, and opportunities that are unique to Montana.
Promote sustainable resource conservation, including conservation of energy, water, and wildlife.
Participate in and help lead community stewardship partnerships to maintain Montana assets.
Identify and appeal to markets that value and seek to help sustain Montana's distinct character.
Foster a diversity of products and services that meet the demand of a demographic cross-section of the "geotourist market."
Ensure visitor satisfaction and an enduring market demand through education of Montana residents about the benefits of sustainable tourism.
Work with the Institute for Tourism and Recreation Research, Travel Montana, and other tourism organizations throughout the state to evaluate effective implementation of the Tourism Charter.

Source: Montana Tourism Charter (2007). Accessed January 4, 2011.  
<http://travelmontana.mt.gov/charter/>.

**Table 4**  
**Business Owner Projections Over the Years**

Projected Year	Expect an increase	Expect to remain the same	Expect a decrease
2011	55%	37%	8%
2010	47%	42%	12%
2009	32%	39%	27%
2008	55%	34%	10%
2007	64%	31%	5%
2006	63%	31%	6%
2005	67%	26%	7%
2004	79%	18%	3%
2003	70%	22%	8%
2002	56%	33%	10%

Source: Institute for Tourism and Recreation Research, The University of Montana.

- Maintain the multiple-use concept in Montana – we are losing business by eliminating where folks can snowmobile and drive their four-wheelers.
- Green/sustainable practices are wanted, but Montana businesses are not doing it. What are the barriers?
- As long as the Missouri River continues to produce the blue-ribbon trout that our guests are catching, our business will continue.
- Recycling is too expensive, and the efforts for biodegradable items are lost when thrown in a plastic garbage bag. Wind, solar, and hydro power should be the focused green direction.

### Policy and infrastructure

- Initiative 161 assaulted the outfitter business and livelihoods. Montana needs to support small

business like outfitting, not make it more difficult. We are sending out the message loud and clear that nonresident hunters are not welcome.

- Montana needs lower airline prices to encourage visitation and maintain residents' ability to travel.
- Couldn't we fund state parks, national parks, forests, and other public land agencies so they can provide interpretation? The more people learn, the more likely they will return. Visitors want to "gawk" less and learn more.

### Economy

- Finding local help for entry-level work is near to impossible. Is there a fix?
- If the U.S. dollar remains tepid, we will get more international visitors, especially from Canada. Is this a solution to our economy – be the bargain country for visitors?
- If we had more big businesses in Montana we would have more visitors coming here.
- The economy is killing small business like ours that don't deal with high-end spenders. The present economic climate is crushing the middle class who are our main business clients.
- People are coming but spending less. Will this change?
- With 10 million nonresidents spending money in Montana, is it time to look at a sales tax so visitors can help us out?

### Marketing

- Is the travel region concept still valid today? Should bed tax monies go directly to communities rather than to a region? Are we duplicating efforts?
- What kind of marketing could increase bookings from October to May? We generally have decent weather in October, April, and May yet it's hard to entice folks.

It is difficult to summarize the multitude of issues and challenges facing the tourism industry in Montana. However, 2011 will be a better year than 2010 in terms of visitation. As Table 4 shows, 55 percent of business owners are expecting an increase in 2011 while only 8 percent are expecting a decrease. The travel industry is focusing on enticing visitors who will support local economies, encourage local business, and value the landscape as Montanans do. As long as visitors and residents have the same values, Montana tourism will grow in a manner appreciated by everyone. □

*Norma P. Nickerson is director of The University of Montana's Institute for Tourism and Recreation Research.*



# Public Health Care Funding and the Montana Economy

by Gregg Davis

## The Demographic Shift in Health Care Spending

Every eight seconds another baby boomer qualifies for Medicare. This trend will continue until the year 2029, as 78 million boomers become eligible for Medicare, the federal program financing health care for the 65+ population.

As the population ages, the balance between public and private spending for health care will shift significantly, with the public share of total health care spending increasing from 47 percent in 2008 to more than 50 percent by 2012, and eventually reaching 52 percent by 2019.

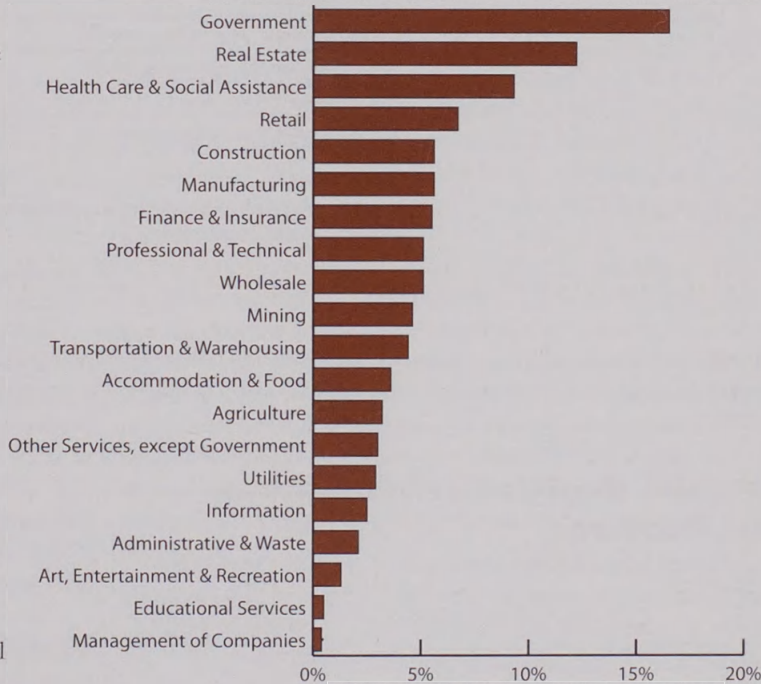
An aging population spends more per capita on health care, and finding ways to pay for it will prove to be a challenge. Public spending for health care is expected to accelerate from 5 percent annual growth in 2010 to more than 8 percent annual growth in 2018.

Understanding the role public health care dollars play in a state's economy is important, and particularly so for Montana, which has more baby boomers and veterans per capita than the rest of the nation. And both of these groups rely on public funding for their health care needs. The impact public dollars have on Montana's health care industry, as well as its overall economy, was the focus of a recent BBER study sponsored by the Alliance for a Healthy Montana. Following are some of the study's findings.

## Health Care in Montana

This year, Montanans will spend more than \$6 billion on health care. Personal health care expenditures include spending on hospital care, professional services (doctors, dentists, and clinical services), nursing home and home health services, and retail sales of prescription drugs and medical products.

**Figure 1**  
**Montana Gross State Product**  
**by Industry, 2009**



Source: Bureau of Economic Analysis,  
U.S. Department of Commerce.

One way to fully understand the importance of all personal health care spending in Montana is to put it in the perspective of the state's gross state product. Personal health care spending represents more than 17 percent of the state's gross product.

Health care is typically defined as ambulatory services, hospitals, nursing and residential services, and social assistance. In Montana, it accounts for 9 percent of the state's gross state product. Only government (federal civilian, federal military, state and local government) and real estate rental and leasing exceed it in terms of gross state product. (Figure 1).



**Table 1**  
**U.S. Department of Health and Human Services**  
**Payments to Montana, 2009, by Division**

Operating Division	Expenditure
Centers for Medicare and Medicaid Services	\$2,565,647,159
Administration for Children and Families	\$186,354,963
National Institutes of Health	\$81,410,019
Health Resources and Services Administration	\$42,428,181
Indian Health Service	\$20,260,619
Centers for Disease Control and Prevention	\$14,308,306
Substance Abuse and Mental Health Services Administration	\$12,489,986
Administration on Aging	\$8,703,310
Public Health Service	\$6,669,718
Immediate Office of the Secretary of Health	\$2,880,587
Office of the Assistant Secretary for Health	\$783,896
Food and Drug Administration	\$518,467
Agency for Health Care Policy and Research	\$511,208
All Divisions	\$3,005,575,880

Source: Consolidated Federal Funds Report for Fiscal Year 2009,  
U.S. Census Bureau, August 2010.

Compared to the rest of the nation, only seven states devote more of their gross state products to health care and social assistance.

## Public Health Care Spending in Montana

Federal payments to Montana from the U.S. Department of Health and Human Services (DHHS) were \$3 billion in 2009, 28 percent of all federal payments to Montana. Federal grants to Montana include more than 140 programs, all under the auspices of the DHHS. In addition to Medicare, which provides health care to older and disabled Americans, Medicaid provides health care to the financially indigent. Other programs include the State Children's Health Insurance Program (CHIP), Head Start, Temporary Assistance for Needy Families, various grants to Montana's community health centers, grants on aging, mental health, and many others. The Centers for Medicare and Medicaid Services alone account for 87 percent (\$2.6 billion) of all DHHS payments to Montana (Table 1).

## Why Public Dollars for Health Care Matter

Montana communities benefit in many ways from public health care funding. For some counties, federal, state, and county employment in health care is evident in ambulatory services, hospitals, nursing and residential services, and

social assistance. Combined with employment in the public administration of health care services, public employment accounts for more than \$361 million in wages and 12 percent of total health care employment in Montana.

In addition to direct employment in health care, public funds support health care services that benefit many Montanans. Nearly three of every 10 Montana residents have health care insurance through Medicare or Medicaid.

## Economic Impacts

To determine the impact Medicaid has in state and local economies, the Kaiser Commission on Medicaid and the Uninsured compiled findings from 29 studies in 23 states. All studies conclude that Medicaid spending creates jobs, income, and state tax revenues. Further, because the federal government matches state funds used for Medicaid, the economic impact is intensified. And because these federal funds come from outside the state, new jobs are created instead of being reallocated from one industry to another.

Other federal funding includes \$33 million for CHIP, \$196.2 million from the Veteran's Administration for medical care and state nursing home care, and \$134.6 million from the Department of Agriculture for the Supplemental Nutrition Assistance Program (SNAP).

Any impact public funding has on the economy must reflect the fact that taxpayers lose buying power when paying taxes to support federal and state health care programs. This loss of buying power results from the mandatory tax



**Table 2**  
**Economy-wide Summary Findings**  
**[dollar amounts in thousands of 2009 dollars]**

	Total Dependent on Public Funding	Percent of Montana Total
Jobs	52,627	10.5
Earnings	\$2,402,616	14.0
Sales	\$4,341,346	5.4

Source: Bureau of Business and Economic Research, The University of Montana.

(2.9 percent) paid to support the hospital insurance program (Part A) under Medicare, and the Part A taxes (2.9 percent payroll tax) along with the state taxes paid for Medicaid. Without this adjustment for loss of buying power, the impact on the Montana economy would be considerably larger.

The jobs created at federally and state-supported health care institutions benefit many Montana communities. Almost half of Montana counties have either federal, state, or county employees in health care. And when employment in the public administration of health care is added, 86 percent of Montana counties have public employees in health care.

Indirectly, the Montana economy also benefits as public health care workers spend their paychecks and as the health care industry purchases goods and services from other industries.

Not every health care dollar coming from federal and state sources is identified. For example, the Department of Corrections budgets for medical services from sources outside the prison (\$5.2 million in 2010 legislative budget), and the State Auditor's Office has been charged with new responsibilities under the Patient Protection and Affordable Care Act. However, Medicare, Medicaid, and CHIP alone account for more than 75 percent of all public health spending.

Nevertheless, nearly 14 percent of total private earnings and almost 11 percent of all jobs in Montana are dependent on federal and state support of health care (Table 2). Not accounted for is the additional benefit of a healthier working population, and hence, more productive labor force. Also absent is the importance of health care for attracting and retaining businesses in Montana, as well as the ever-growing retired population in the state.

Nearly every health care sector would be adversely affected by the loss of federal and state support, more so for hospitals and nursing homes (Table 3). Exactly how the health care sector would respond to unfavorable changes is uncertain. Also uncertain is how costs could be shifted to the uninsured and private health care insurance should federal or state support for health care change. But certain for the state of Montana is the importance of public funding not only for the health care industry, but for the Montana economy in general. □

*Gregg Davis is director of health care industry research at The University of Montana Bureau of Business and Economic Research.*

**Table 3**  
**Health Care Industry Summary Findings**  
**[dollar amounts in thousands of 2009 dollars]**

	All Health Care	Ambulatory Care	Hospitals	Nursing & Residential	Social Assistance
Jobs	25,246	4,576	14,561	5,650	459
Percent of all health care	37.1	21.2	70.6	50.8	3.1
Earnings	\$1,316,010	\$259,172	\$867,843	\$169,780	\$19,215
Percent of all health care	42.6	20.2	70.9	53.3	7.2
Sales	\$1,026,067	\$810,293	\$1,498,317	\$202,410	\$11,866
Percent of all health care	19.9	37.4	70.2	53.1	2.5

Source: Bureau of Business and Economic Research, The University of Montana.



# Outlook for Montana Agriculture

by George Haynes

## General Financial Overview

**M**ontana farmers and ranchers have rebounded from a year of lower prices and production in 2009 to higher prices and near record production in 2010. U.S. net farm income is expected to increase by more than 30 percent in 2010, with much of the increase resulting from higher prices in the dairy and hog complexes. Although Montana has limited dairy and hog production, Montana net farm income is likely to rise between 15 and 25 percent from 2009 to 2010 – an excellent year.

A relatively stable agricultural market was jolted in early August when Russian Prime Minister Vladimir Putin announced an embargo on Russian wheat exports because of the continuing drought in the region. The Putin announcement and decreased Former Soviet Union (FSU-12) and Canadian wheat production, drove up grain prices in late summer. The grain price increase, coupled with a near record-setting production year, culminated in an excellent year for Montana crop producers. Even Montana beef producers, who have had several years of lackluster profits, had reasons to be optimistic as domestic and international consumption of U.S. beef improved, pushing beef prices higher.



These increases in agricultural commodity prices after a year of food price deflation in 2009 have shoppers realizing modest food price increases in 2010. These increases have been somewhat lower than expected because of the slow economic recovery. Grocery store and restaurant prices increased by less than 1 percent, which was well below typical annual price increases in the early 2000s of 2.5 percent or more.

While traditional wheat and beef production comprises about 75 percent of gross sales from Montana agriculture, one of the most rapidly growing sectors is organic products. U.S. organic food sales are expected to reach \$25 billion in 2010, up from \$3.6 billion in 1997. Organic products account for more than 3.5 percent of food sold for at-home consumption, with produce and dairy products accounting for more than half of organic food sales, followed by soymilk and other beverages. Montana ranks number 7 (out of 50 states) in total acreage dedicated to organic production. The 215,000 acres, less than 1 percent of farm land in Montana, is divided between crop (about 60 percent) and pasture (about 40 percent) use. A substantial share of this agricultural production is marketed at local farmers' markets and specialty sections in grocery stores.

**Table 1**  
**World, U.S., and Montana Wheat Production**

Geographic Area	2008	2009	2010
	(Millions of Bushels)		
World	25,053	25,032	23,573
United States	2,494	2,214	2,204
U.S. share of world market	10.0%	8.8%	9.3%
Montana	165	177	215
Montana share of world market	0.7%	0.7%	0.9%
Montana share of U.S. market	6.6%	8.0%	9.8%
Prices of all wheat, \$/bushel (10/2009)	6.84	5.18	5.70

Sources: World Agricultural Supply and Demand Estimates (WASDE-476, 03/10/2011) and National Agricultural Statistics Service, Montana.



## Grain/Wheat Outlook

World and U.S. average wheat prices increased more than 10 percent between 2009 and 2010 from \$5.18 per bushel in 2009 to around \$5.70 per bushel in 2010. Even though production remained virtually unchanged in the United States, an extended drought dramatically decreased production in the former Soviet Union (FSU-12) countries (Table 1). The FSU-12 drought lowered their production by more than 27 percent, which accounted for nearly 75 percent of the decline in world wheat production. Montana and U.S. shares of world wheat production and sales increased slightly to around 0.9 percent (world) and 9.8 percent (U.S.), respectively. The USDA is forecasting somewhat higher wheat prices in 2011, but below the \$6.84 average wheat price realized in 2008.

In Montana, wheat production increased by more than 21 percent, from 177 million bushels in 2009 to 215 million bushels in 2010. Many producers realized the best crop production year in the last several years, with average per acre wheat and barley yields up by more than 20 percent. At harvest time, winter wheat production was nearly 5 percent higher than in 2009, even though fewer acres were planted. Spring wheat production increased by a whopping 47 percent from 2009 because of record-setting average yields. Barley production decreased by over 6 percent because of fewer planted acres.

The United States typically exports about 10 times more wheat than it imports. U.S. wheat exports are expected to be up over 25 percent from 2009 because of lower production in several major exporting counties, especially Russia. Wheat imports, totaling less than 4 million metric tons in 2009, are expected to decline by about 8 percent. World wheat stocks at the end of the year were down nearly 8 percent from a year ago, reflecting the decline in global production.

Increased consumer demand for wheat in the United States and abroad, a weakening dollar (against most all currencies, except the Euro), and continued increase in bio-fuels production will impact the price of wheat. Total domestic use of wheat is expected to increase by 5 percent from last year. The Russian drought and a weaker dollar will mean that U.S. wheat exports are likely to increase. Finally, the use of corn for the production of ethanol continues to affect crop and livestock markets. The increased demand for corn for producing ethanol has led to an increase in the price of corn from \$2.00 per bushel in 2005 to over \$5.40 per bushel in 2010 and caused an increase in the price of wheat, a feed substitute. While the growth of ethanol usage has slowed, it is still expected to grow to about 4.7 billion bushels, or 35 percent of total corn usage. To meet the renewable fuels standard, the rate of growth will be about 215 million bushels per year through the 2014 crop. In addition, the demand for corn in the export market is very strong. Substantially higher corn prices will continue to increase feed costs for cattle feeders, resulting in downward pressure on stocker and feeder cattle prices.

## Cattle Outlook

Montana cattle producers finally have escaped a couple of years of lackluster profits, with calf prices increasing nearly 20 percent this year. Improving economies worldwide are increasing the demand for beef; in fact, U.S. beef exports are expected to be 19 percent higher in 2010. In addition, supplies of beef will be limited as commercial production is expected to remain low into 2011, and prices for competing meats, chicken and pork, have increased substantially over the past year. All of this translates into higher prices for Montana's cow-calf producers.

**Table 2**  
**U.S. and Montana Beef Production**

Geographic Area	2007	2008	2009	2010 *
	(1,000 Tons - Carcass Weight Equivalent)			
United States	20,718.5	20,339.7	20,460.0	20,500.0
Montana	539.9	484.9	476.2	480.0
Montana share of U.S. market	2.6%	2.4%	2.3%	2.3%
Prices received, calves, \$/hundred weight	123	109	108	130

\*Forecast

Source: National Agricultural Statistics Service, Montana.



**“... Consumers are spending about 2 percent less on food prepared at home and are spending about 6 percent more on food prepared away from home in 2010 than 2009. The increase in food away from home spending is good news for Montana cattle producers, who depend on the restaurant market for their high quality beef.”**

U.S. commercial beef production has been relatively stable since 2007 (Table 2, page 27); although, the demand for beef has changed substantially over the past two decades. Montana's beef production decreased slightly between 2008 and 2009, with Montana's share of the U.S. beef market remaining around 2.5 to 3.0 percent. Futures prices for the cattle market suggest that calf prices will be substantially stronger in 2010.

U.S. beef exports for 2010 are expected to be over 15 percent higher than in 2009, but are expected to remain virtually unchanged in 2011. Most recently, beef exports have been positively affected by a weak dollar. Mexico, Canada, Japan, and South Korea take two-thirds of U.S. beef exports. U.S. beef exports to Japan and South Korea through the fourth quarter were 28 percent and 97 percent higher than last year, respectively. Exports to our largest customer, Mexico, are down 26 percent, while exports to Canada have remained virtually unchanged since last year. Some additional export potential is developing with Russia, where our beef exports have increased nearly eight fold over the past year.

Cattle imports into the United States from all sources are expected to be the lowest since 1997, primarily because of a 28 percent decline in Australia imports. Canada, one of the largest exporters of cattle to the United States, has increased U.S. exports by 12 percent over the past year. However, declining cattle inventories, along with the desire to rebuild herds in Canada, will constrain production and limit their export potential in 2011.

Growth in U.S. beef consumption is predicted to be slow over the next few years. In 1990, beef represented about 34 percent of total red meat and poultry consumed in the United States; however, by 2011 beef is expected to represent less than 30 percent of this total. Slower growth rates in the U.S. and global economies will cause consumers to watch their food budgets more carefully. Recent information on food sales suggests that consumers are spending about

2 percent less on food prepared at home and are spending about 6 percent more on food prepared away from home in 2010 than 2009. The increase in food away from home spending is good news for Montana cattle producers, who depend on the restaurant market for their high quality beef.

## **Grocery Bill**

The largest increases in food prices over the past year have been in ground beef, whole milk, and bacon, with prices increasing by more than 10 percent. Wheat flour and pasta products have realized price decreases of 6 percent or more. The USDA expects food prices to increase by 2 percent to 3 percent in 2011. Of course, this food price inflation depends on the pace of the U.S. and global economic recovery and unforeseen production events, such as weather-related disasters.

## **Public Policy and Farm Bill**

The 2012 Farm Bill negotiation are looming on the horizon in Washington, D.C. High agricultural prices have reduced government spending on many agricultural subsidy programs; however, some storm clouds are gathering. The United States lost a World Trade Organization case to Brazil on cotton subsidies, which will influence the structure of agricultural subsidy program proposed in the Farm Bill. The tight federal budget has focused attention on direct payment programs, which is likely to shift agricultural support away from direct payments and toward revenue protection and insurance programs in the 2012 Farm Bill. Stay tuned as the 2012 Farm Bill negotiations heat up in 2011. □

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*George Haynes is a professor and extension specialist in the Department of Agricultural Economics and Economics at Montana State University-Bozeman.*

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# Montana's Manufacturing Industry

by Todd A. Morgan, Charles E. Keegan III, and Colin B. Sorenson

**D**espite the recent recession and extensive declines in wood products, manufacturing remains a substantial component of Montana's economy, with sales of \$10 billion during 2010. The state's manufacturers employed 21,000 workers in 2010 (Figure 1), earning more than \$1 billion in labor income (Figure 2).

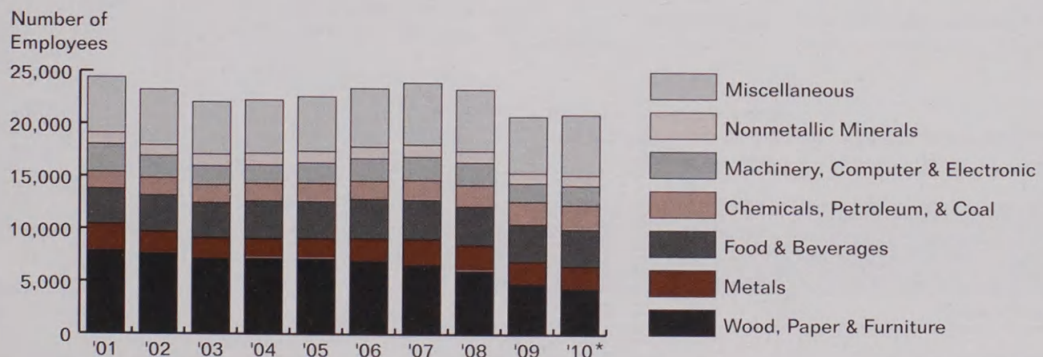
The manufacturing sectors account for more than 20 percent of Montana's economic base, and prior to the recent downturn, four Montana counties each had more than 2,800 manufacturing employees and more than \$135 million in labor income from manufacturing (Table 1). Recent declines

primarily in the wood and paper products, primary metals, and machinery industries have dropped Flathead County below 3,000 manufacturing workers and Missoula County below 2,000.

The value of production rose in 2010 by an estimated \$1.7 billion to approximately \$10 billion. The increase was due to generally higher product prices and output across most sectors, with Montana's petroleum refineries accounting for the bulk of the increased sales value compared to 2009.

After substantial declines in employment during 2009, Montana manufacturing employment turned upward as 2010 progressed, with a net increase of an estimated

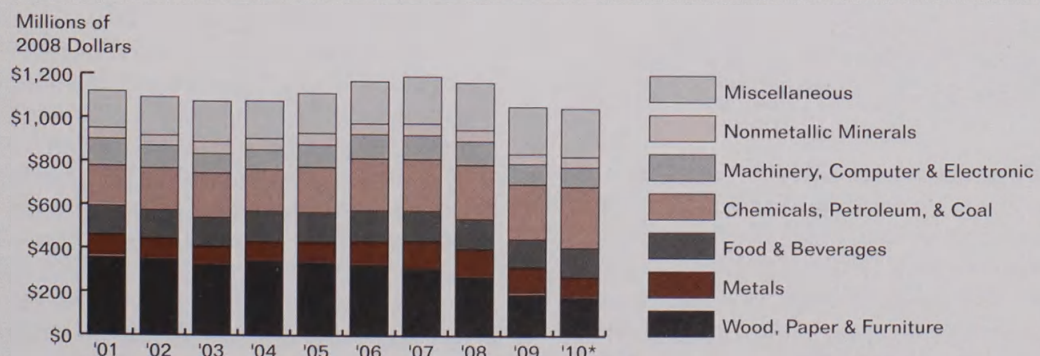
**Figure 1**  
**Montana Manufacturing Employment, 2001-2010**



\* 2010 estimated by BBER.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Figure 2**  
**Labor Income in Montana Manufacturing, 2001-2010**



\* 2010 estimated by BBER.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.



**Table 1**  
**Montana Manufacturing Employment**  
**and Labor Income, by County, 2008**

County	2008 Manufacturing Employment	Percent of Total	2008 Manufacturing Labor Income (Millions of 2008 \$)	Percent of Total
Yellowstone	4,054	17%	287	25%
Flathead	3,872	16%	196	17%
Gallatin	3,091	13%	151	13%
Missoula	2,853	12%	138	12%
Ravalli	1,257	5%	45	4%
Cascade	1,000	4%	55	5%
Lake	936	4%	33	3%
Lewis and Clark	931	4%	43	4%
Silver Bow	631	3%	38	3%
Park	443	2%	18	2%
Lincoln	397	2%	12	1%
Other counties	4,367	18%	138	12%
Montana total	23,832	100%	1,152	100%

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Table 2**  
**Employment and Labor Income in Montana**  
**Manufacturing Sectors, 2001 and 2010**

	Labor Income (millions 2008 \$)		Employment	
	2001	2010*	2001	2010*
Wood, paper & furniture	358	178	7,907	4,385
Metals	103	94	2,526	2,116
Food & beverage	134	135	3,365	3,558
Chemicals, petroleum & coal	183	280	1,607	2,266
Machinery, computers & electronics	123	91	2,612	1,842
Nonmetallic minerals	50	47	1,090	1,005
Miscellaneous	169	223	5,283	5,742
Total	1,120	1,047	24,390	20,912

\* 2010 estimated by BBER.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

200 workers. Estimated workers' earnings in 2010 were approximately equal to the \$1 billion reported for 2009. This is in contrast with the U.S. manufacturing sector, which had lower employment in 2010 versus 2009. The largest single loss in 2010 was the closure of the Smurfit-Stone Container pulp and paper mill in Frenchtown, dropping overall manufacturing employment by 400 workers. All other

manufacturers combined added an estimated 600 workers.

Looking at the past decade and comparing 2001 to 2010, total employment and labor income for 2010 are estimated to be lower than 2001 levels for manufacturing as a whole in Montana (Table 2). However, a number of sectors have shown growth over that period including chemicals, petroleum and coal, food and beverage, and a mix of manufacturers in the miscellaneous category, including high-tech and light manufacturing. Declines since 2001 were largest in Montana's wood and paper products industry (see pages 31-32) with segments of Montana's metals, machinery, and nonmetallic minerals manufacturers also suffering declines.

## Outlook: 2011 and Beyond

The 2011 outlook is for modest improvement in Montana manufacturing activity, with expectations that the United States and other major economies will continue the slow recovery that began in the last half of 2009. Montana manufacturers should continue to benefit from improved export activities. The weakness of the dollar has spurred sharp increases in U.S. exports as the global economy improved in 2010; emerging economies such as Latin America and China showed rapid growth. Exports are projected to continue to increase by 8 percent in 2011 and 10 percent in 2012. In part due to strong global markets, the high-tech related sectors have shown recent growth, which will continue through 2011. Also benefitting U.S. and Montana manufacturers in 2011 and 2012 is an expected reduction in the rate of imports of manufactured goods, which increased during 2010.

Montana manufacturers who responded to the BBER's annual manufacturers survey continue to express optimism in their outlook for the coming year. Nearly 50 percent expected improved conditions for 2010, and about 45 percent expect better conditions for 2011. About 15 percent expect worsening conditions in 2011, very similar to the 15 percent that expected worsening conditions for 2010. Nearly 64 percent of manufacturing respondents expect to keep their workforce at the same level in 2011, while 29 percent foresee an increase in employment.

More than 60 percent of responding firms indicated the recession has caused their firm to fundamentally change the way they plan to operate in the future. Most of the major changes involved reducing costs and operating more efficiently. Other major changes included diversification into new products and markets, or focusing on key products and projects. □

*Todd A. Morgan is the Bureau's director of forest industry research, Charles E. Keegan III is the retired director of forest industry research, and Colin B. Sorenson is a BBER research economist.*



# Montana's Forest Products Industry

## Current Conditions and 2011 Forecast

by Todd A. Morgan, Charles E. Keegan III, Steven W. Hayes, and Colin B. Sorenson

### Operating Conditions

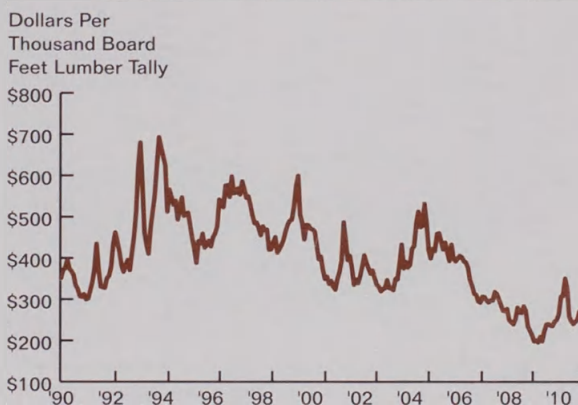
The dreadful economic conditions experienced by the country's forest products industry in 2009 improved somewhat during 2010. Lumber consumption in the United States remained at historically low levels, although softwood lumber exports increased by more than 50 percent. Annual U.S. housing starts, which fell to 554,000 units during 2009 – their lowest level in more than six decades – rebounded slightly to 587,000 units for 2010. In response to rising exports and a small uptick in housing starts, lumber prices were approximately 27 percent higher than during 2009 (Figure 1).

Montana's sawmills, plywood, and reconstituted board facilities showed modest increases in output during 2010 from very low levels in 2009. However, the January 2010 closure of the Smurfit-Stone Container linerboard facility in Frenchtown cost the state's forest products industry its largest single employer and largest user of wood fiber. Permanent closures also continued to impact the state's log home industry. Logging employment was relatively stable from 2009 to 2010 after sharp declines from 2008 to 2009. Additionally, several hundred Montana forest industry workers were kept active conducting much needed road and trail restoration, forest health protection, and hazardous fuels reduction, aided by more than \$70 million in federal stimulus funds and a variety of federal, state, and private lands projects.

### 2010 Sales, Employment, and Production

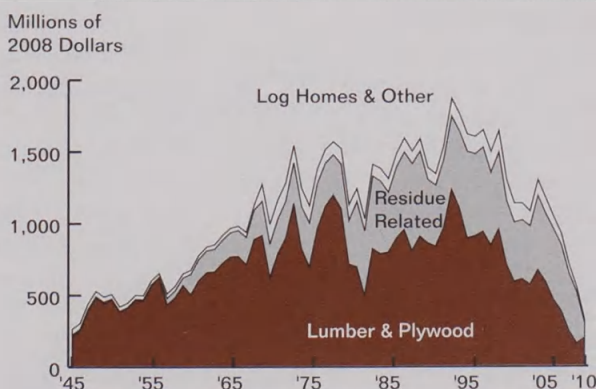
Total sales value of Montana's primary wood and paper products was approximately \$325 million (fob the producing mill) during 2010. Sales were down about \$225 million or 40 percent from 2009, and were about \$850 million lower than 2005, when sales were just under \$1.2 billion (Figure 2). Total forest industry employment during 2010 was about 6,840 workers (including the self-employed), down by about 3 percent from the revised 2009 estimate of 7,060 workers. Labor income in Montana's forest industry was estimated to be less than \$265 million during 2010, about 7 percent lower than 2009. Among Montana's remaining sawmills, lumber production in 2010 actually increased from 2009 levels to an estimated 480 million board feet lumber tally. Production was still down more than 50 percent from 2005 levels and almost 30 percent lower than 2008 (Figure 3).

**Figure 1**  
**Nationwide Composite Lumber Prices**  
**Monthly, 1990-2010**



Source: Random Lengths Publications.

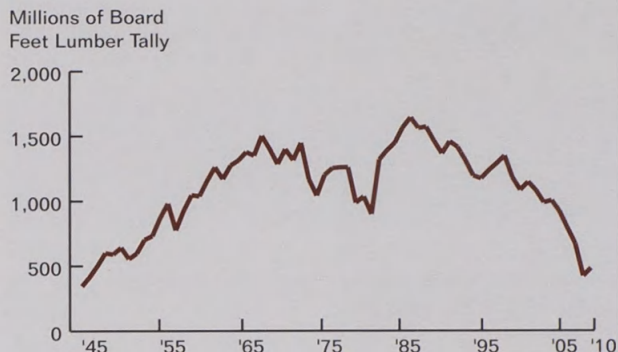
**Figure 2**  
**Sales Value of Montana's Wood and Paper**  
**Products, 1945-2010**



Sources: Bureau of Business and Economic Research, The University of Montana; Western Wood Products Association.

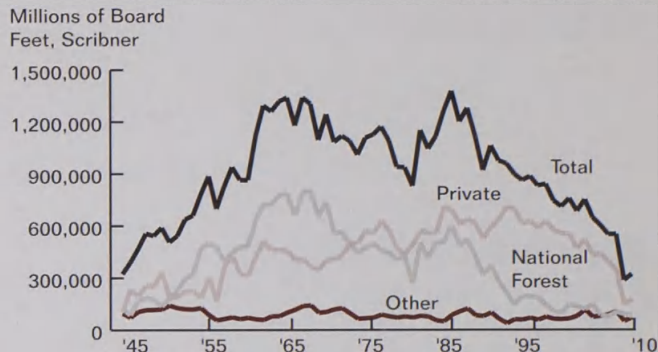


**Figure 3**  
**Montana Lumber Production, 1945-2010**



Sources: Bureau of Business and Economic Research, The University of Montana; Western Wood Products Association.

**Figure 4**  
**Montana Timber Harvested by Ownership, 1945-2010**



Sources: Bureau of Business and Economic Research, The University of Montana; U.S. Forest Service Region One.

Despite the numerous stimulus-supported activities, which included little commercial timber harvest, Montana's timber harvest volume during 2010 was an estimated 321 million board feet (Scribner), about 12 percent higher than 2009. This is the second lowest timber harvest on record since 1945, the lowest being in 2009 (Figure 4). The harvest from private lands increased somewhat, but was still only 50 percent of the 2008 harvest and just 40 percent of the 2005 harvest. National forest timber harvest during fiscal year 2010 (Figure 5) was reported to be about 10 percent higher than 2009, marking a third consecutive year of increases from the record low of 2007. National forest cut volumes, however, include considerable amounts (nearly 50 percent by volume) of residential firewood and non-sawlog material.

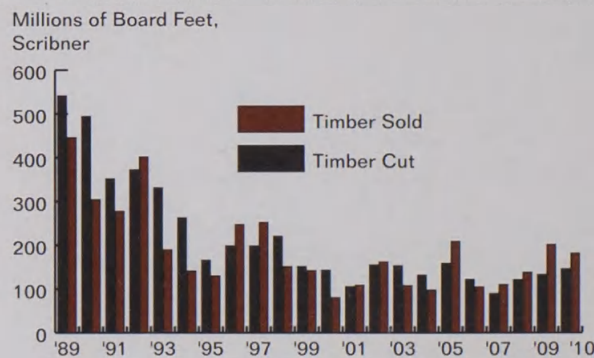
## Outlook for 2011

National forecasts once again call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products in 2011, with larger improvements in 2012. Some optimism is also reflected in the outlook of Montana's remaining wood products industry executives, with 46 percent expecting 2011 to be better than 2010 and 35 percent expecting conditions to be about the same as 2010.

About 40 percent of executives anticipate that production and prices for their products will increase, and 50 percent expect gross sales to increase in 2011. Almost 50 percent expect the cost of inputs to be higher than in 2010, while more than 48 percent indicated that raw material availability is still very important to their business. Health insurance costs, workers' compensation rates, and workers' compensation rules continued to be very important concerns for the majority of Montana's wood products manufacturers.

As a whole, Montana's forest industry faces a high degree of uncertainty in the near-term. The fate of the Smurfit-Stone mill is still unknown. Attempts to locally develop a woody biomass energy industry are being hampered by a confusing

**Figure 5**  
**Montana National Forest Timber Cut and Sold Volumes, 1989-2010**



Source: USDA Forest Service Region One, Missoula, MT.

and often contradictory mix of federal laws, incentives, and agency policies. Continued increases in domestic housing and foreign demand for lumber could benefit Montana's forest industry by improving markets for wood products, provided mills in the state can overcome the chronic shortage of available timber. Continued increases in activity on federal timber lands, however, are not expected, as most of the pipeline of shovel-ready projects was depleted with 2009 and 2010 stimulus activities and federal budget cuts are expected. Despite these uncertainties, many in Montana's forest industry remain optimistic and eager to capitalize on new opportunities. □

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